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A REPORT TO THE MONTANA LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission

For the Two Fiscal Years Ended June 30, 2007

OCTOBER 2007

LEGISLATIVE AUDIT DIVISION

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

November 2007

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2007. This report contains one recommendation related to revenue recognition.

The Library's written response to the audit recommendation is included on page B-3 of the audit report. We thank the Montana State Library Commission, the State Librarian, and the library staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana State Library Commission

		Term Expires
Donald Allen, Chairperson	Billings	May 2009
Nora Smith, Vice Chair	Bozeman	May 2008
Bonnie Allen*	Missoula	NA
Cindy Carrywater	Hays	May 2008
Marsha Hinch	Choteau	May 2010
Linda McCulloch**	Helena	NA
Ron Moody	Lewistown	May 2009

*Appointed by the Commissioner of Higher Education for the Montana University System

**Superintendent of Public Instruction, Ex officio member

Administration

Darlene Staffeldt, State Librarian

Bob Cooper, Director of Statewide Librarian Resources

Jim Hill, Director of Digital Library

Kris Schmitz, Central Services Manager

For additional information concerning the Montana State Library Commission, contact:

Kris Schmitz
Central Services Manager
1515 East Sixth Avenue
PO Box 201800
Helena MT 59620-1800

E-mail: kschmitz@mt.gov

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REPORT SUMMARY

Montana State Library

This audit report is the result of our financial-compliance audit of the Montana State Library Commission for the two fiscal years ending June 30, 2007. We issued a qualified opinion on the Schedule of Total Revenues and Transfers-In and Schedule of Changes in Fund Balances for both fiscal years. The reader should use caution in relying on the information presented on these financial schedules, as well as the supporting data on the state's accounting system. We issued an unqualified opinion on the Schedules of Total Expenditures and Transfers-Out for both fiscal years.

This report contains one recommendation related to revenue recognition by the Library. The listing below serves as a means of summarizing the recommendation, the Library's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Library record grant and multiyear revenues in accordance with state policy.....4

Montana State Library Response: Concur.....B-3

Chapter I — Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2007. The objectives of the audit were to:

1. Determine if the Library complied with applicable laws and regulations.
2. Obtain an understanding of the Library's control systems to the extent necessary to support our audit of the Library's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the Library.
3. Determine if the financial schedules present fairly the results of operations for each of the two fiscal years ended June 30, 2007.
4. Determine implementation status of prior audit recommendations.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #2 and considered to be significant or material. A significant deficiency affects management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 outlines the status of material weaknesses we identified during this audit.

Table 1
Summary of Control Deficiencies

Subject	Significant Deficiency	Material Weakness	Page
Improper revenue recognition	Yes	Yes	3

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendation.

Background

The Library was created in 1929 by law, which is codified in Title 22, Chapter 1, MCA. The Library is the focal point for the development and improvement of library services in Montana. It provides general library services to Montana state government and consists of three main divisions: Statewide Library Resources (11 FTE), which consists of the Talking Book Library and the Library Development Department; Montana State Digital Library

(14 FTE), which consists of Natural Resource Information System Program (NRIS) and Library Information Services; and Central Services Division (4.5 FTE).

The 1983 Legislature established the NRIS program to improve the availability and accessibility of data and information regarding Montana's natural resources. The Montana State Digital Library's staff helps coordinate efforts and data gathering among state agencies and other organizations to reduce duplication and promote information sharing by establishing a clearinghouse with referral service links to sources of information. The three main components of the Digital Library are: the former NRIS system including Water Information System and Montana Geographic Information System, the former Library and Information Services Program, and the Montana Natural Heritage Program, which maintains a computerized inventory of Montana's biological resources, emphasizing rare, threatened, or endangered plant and animal species, and biological communities.

In addition to assisting state government, the Library provides services to public, academic and specialized libraries throughout the state through the Talking Book Library, Montana Library Network, and Library Development Department. The services provided include, but are not limited to, assisting with information/reference needs, material lending, publications depository, statewide library development, services for the blind and visually impaired, improving the availability and accessibility of data and information for use in maintaining Montana's natural resources, providing interactive mapping opportunities, maintaining Montana's field guides, and developing and managing relational database management systems.

Library operations and grants to public libraries are funded by General Fund appropriations, federal assistance, and a portion of the Coal Severance Tax. Digital Library operations are primarily funded by contracts with state, federal and local government entities.

Prior Audit Recommendations

The prior financial-compliance audit of the Library for the two fiscal years ended June 30, 2005 contained two recommendations. The Library implemented both recommendations.

Prior Audit Disclosure Issue

The prior financial-compliance audit of the Library for the two fiscal years ended June 30, 2005, contained a disclosure issue. The Library continues to account for the on-line periodical subscription fees in the same manner, which is to charge local libraries a fee based on their annual materials budget along with coal severance tax appropiations. However, new legislation passed during the 2007 Legislative Session will now fully fund the subscriptions to the on-line periodical database starting in fiscal year 2007-08, through coal severance appropriations.

Chapter II — Findings and Recommendations

Improper Revenue Recognition

Two sources of revenues, private grants and periodical database fees, received by the Library in fiscal year 2005-06, did not meet the definition of revenue and should have been deferred.

A private grant of $295,500 received by the library to reimburse local libraries for computer system purchases was received in fiscal year 2005-06. Voluntary nonexchange transactions recognize revenue when the revenue is realizable, measurable, earned by meeting specific eligibility requirements, and available. Not all eligibility requirements were met by the end of fiscal year 2005-06; therefore, the amount should have been deferred to periods when the Library earned the revenue.

During fiscal year 2005-06 the Library incurred no allowable costs, thereby making the $295,500 of grant funds received by the Library unearned. As such, this grant revenue should have been deferred. During fiscal year 2006-07, the Library incurred allowable costs of $189,869, thereby making this amount of the revenue earned while the remainder should have again been deferred for subsequent periods.

In addition, revenue of $122,028 was received from local libraries for two-year support of an on-line periodical database. The Library uses these fees and coal severance tax appropriations to fund administrative costs of the database. Fee revenues for multiyear activities are earned over the time period to which they apply. The Library recognized as revenue the entire amount received from local libraries during fiscal year 2005-06.

These errors resulted in overstatements and understatements as follows:

Table 2
Overstatements
Fiscal Year 2005-06

Schedule	Revenue Type	Amount OverStated
Total Revenues and Transfers-In	Grants, Contracts, Donations, and Abandonments	$295,500
	Charges for Services	$61,014
Changes in Fund Balances	Budgeted Revenues & Transfers-In	$356,514
	Fund Balance	$356,514

Source: Compiled by the Legislative Audit Division.

Table 3
Overstatements and Understatements
Fiscal Year 2006-07

Schedule	Revenue Type	Amount Over (Under) Stated
Total Revenues and Transfers-In	Grants, Contracts, Donations, and Abandonments	($189,869)
	Charges for Services	($61,014)
Changes in Fund Balances	Budgeted Revenues & Transfers-In	($250,883)
	Fund Balance	$105,531

Source: Compiled by the Legislative Audit Division.

Library personnel indicated they were unaware the revenues should have been deferred. These errors lead to the opinion qualification on the Schedule of Total Revenues and Transfers-In and Schedule of Changes in Fund Balances for both fiscal years.

RECOMMENDATION #1
We recommend the Library record grant and multiyear revenues in accordance with state policy.

Independent Auditor's Report & Library Financial Schedules

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the State Library Commission (Library) for each of the fiscal years ended June 30, 2007, and 2006. The information contained in these financial schedules is the responsibility of the Library's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

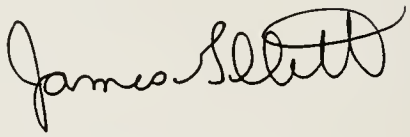
As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Library's assets, liabilities and cash flows.

In fiscal year 2005-06 grant revenue and multiyear subscription fees were recorded as revenue rather than deferred revenue. These errors resulted in an overstatement of $295,500 in Grants, Contracts, Donations, & Abandonments Revenue and an overstatement of approximately $61,014 in Charges for Services Revenue on the fiscal year 2006 Schedule of Total Revenues & Transfers-In. They also resulted in an overstatement of approximately $356,514 of Budgeted Revenues & Transfers-In and an overstatement of $356,514 in ending Fund Balance on the fiscal year 2006 Schedule of Changes in Fund Balances. The errors resulted in an understatement of $189,869 in Grants, Contracts, Donations, & Abandonments and an understatement of approximately $61,014 in Charges for Services on the fiscal year 2007 Schedule of Total Revenues & Transfer-In. They also resulted in an understatement of approximately $250,883 of Budgeted Revenues &

Transfers-In and an overstatement of $105,631 in ending Fund Balance on the fiscal year 2007 Schedule of Changes in Fund Balances.

In our opinion, except for the matters discussed in the previous paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Library for each of the fiscal years ended June 30, 2007, and 2006, in conformity with the basis of accounting described in note 1.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

August 30, 2007

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2006	$ (257,488)	$ 532,028	$ 0
ADDITIONS			
Budgeted Revenues & Transfers-In		395,156	1,131,097
Nonbudgeted Revenues & Transfers-In	203	19,325	
Direct Entries to Fund Balance	1,791,459	834,292	
Total Additions	1,791,662	1,248,773	1,131,097
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	1,831,013	1,479,840	1,131,097
Prior Year Expenditures & Transfers-Out Adjustments	(205)		
Total Reductions	1,830,808	1,479,840	1,131,097
FUND BALANCE: June 30, 2007	$ (296,634)	$ 300,961	$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2005	$ (384,779)	$ 214,437	$ (18,766)
ADDITIONS			
Budgeted Revenues & Transfers-In		981,305	1,035,310
NonBudgeted Revenues & Transfers-In	234	18,233	
Prior Year Revenues & Transfers-In Adjustments		19	
Direct Entries to Fund Balance	1,798,671	785,157	
Total Additions	1,798,905	1,784,714	1,035,310
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	1,671,787	1,457,158	1,016,370
NonBudgeted Expenditures & Transfers-Out	(163)	9,946	
Prior Year Expenditures & Transfers-Out Adjustments	(10)	19	174
Total Reductions	1,671,614	1,467,123	1,016,544
FUND BALANCE: June 30, 2006	$ (257,488)	$ 532,028	$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	$ 203	$ 61		$ 264
Charges for Services		3,527		3,527
Investment Earnings		8,387		8,387
Grants, Contracts, Donations and Abandonments		402,506		402,506
Federal			$ 1,090,771	1,090,771
Federal Indirect Cost Recoveries			40,326	40,326
Total Revenues & Transfers-In	203	414,481	1,131,097	1,545,781
Less: Nonbudgeted Revenues & Transfers-In	203	19,325		19,528
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	0	395,156	1,131,097	1,526,253
Estimated Revenues & Transfers-In	233	432,264	1,142,598	1,575,095
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (233)	$ (37,108)	$ (11,501)	$ (48,842)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Taxes	$ (233)			$ (233)
Charges for Services		$ (1)		(1)
Grants, Contracts, Donations and Abandonments		(37,107)		(37,107)
Federal			$ (11,501)	(11,501)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (233)	$ (37,108)	$ (11,501)	$ (48,842)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	$ 234	$ 2		$ 236
Charges for Services		122,598		122,598
Investment Earnings		6,084		6,084
Grants, Contracts, Donations and Abandonments		870,873		870,873
Federal			$ 998,616	998,616
Federal Indirect Cost Recoveries			36,694	36,694
Total Revenues & Transfers-In	234	999,557	1,035,310	2,035,101
Less: Nonbudgeted Revenues & Transfers-In	234	18,233		18,467
Prior Year Revenues & Transfers-In Adjustments		19		19
Actual Budgeted Revenues & Transfers-In	0	981,305	1,035,310	2,016,615
Estimated Revenues & Transfers-In	232	1,187,360	1,282,353	2,469,945
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (232)	$ (206,055)	$ (247,043)	$ (453,330)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Taxes	$ (232)			$ (232)
Charges for Services		$ (4,176)		(4,176)
Grants, Contracts, Donations and Abandonments		(201,878)		(201,878)
Federal			$ (247,043)	(247,043)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (232)	$ (206,055)	$ (247,043)	$ (453,330)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		STATEWIDE LIBRARY RESOURCES
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$	1,519,377
Other Compensation		2,450
Employee Benefits		471,467
Total		1,993,294
Operating Expenses		
Other Services		918,763
Supplies & Materials		88,017
Communications		54,517
Travel		99,641
Rent		277,456
Repair & Maintenance		84,401
Other Expenses		182,988
Total		1,705,783
Equipment & Intangible Assets		
Equipment		40,776
Total		40,776
Grants		
From State Sources		462,416
From Federal Sources		49,607
From Other Sources		189,869
Total		701,892
Total Expenditures & Transfers-Out	$	4,441,745
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	$	1,830,808
State Special Revenue Fund		1,479,840
Federal Special Revenue Fund		1,131,097
Total Expenditures & Transfers-Out		4,441,745
Less: Nonbudgeted Expenditures & Transfers-Out		
Prior Year Expenditures & Transfers-Out Adjustments		(205)
Actual Budgeted Expenditures & Transfers-Out		4,441,950
Budget Authority		5,378,144
Unspent Budget Authority	$	936,194
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	$	4,909
State Special Revenue Fund		382,987
Federal Special Revenue Fund		548,298
Unspent Budget Authority	$	936,194

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		STATEWIDE LIBRARY RESOURCES
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	$	1,366,308
Other Compensation		2,100
Employee Benefits		409,795
Total		1,778,203
Operating Expenses		
Other Services		1,068,115
Supplies & Materials		106,424
Communications		62,072
Travel		93,970
Rent		274,027
Repair & Maintenance		54,458
Other Expenses		105,874
Total		1,764,940
Equipment & Intangible Assets		
Equipment		80,783
Total		80,783
Grants		
From State Sources		461,722
From Federal Sources		69,318
From Other Sources		315
Total		531,355
Total Expenditures & Transfers-Out	$	4,155,281
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	$	1,671,614
State Special Revenue Fund		1,467,123
Federal Special Revenue Fund		1,016,544
Total Expenditures & Transfers-Out		4,155,281
Less: Nonbudgeted Expenditures & Transfers-Out		9,783
Prior Year Expenditures & Transfers-Out Adjustments		183
Actual Budgeted Expenditures & Transfers-Out		4,145,315
Budget Authority		5,538,411
Unspent Budget Authority	$	1,393,096
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	$	146,999
State Special Revenue Fund		388,070
Federal Special Revenue Fund		858,027
Unspent Budget Authority	$	1,393,096

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana State Library Commission
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2007

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana State Library Commission (Library) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the Library records:

Revenues when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Library to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the Library receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The Library uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources other than private-purpose trusts or major capital projects that are legally restricted to expenditures for specific state program purposes. Library State Special Revenue Funds include allocations of Coal Severance Taxes, Resource Indemnity Trust Fund earnings, and Natural Resource Information System contracts with state and private entities.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Library Federal Special Revenue Funds include the Library

Services and Technology Act grants and Natural Resource Information System contracts with federal entities.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The Library has authority to pay obligations from the statewide General Fund within its appropriation limits. The Library expends cash or other assets from the statewide fund when it pays General Fund obligations. The Library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2007 and June 30, 2006.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. These funds include the General Fund, the Resource Indemnity Trust Fund and the Coal Severance Tax Fund.

4. Unspent Budget Authority

The unspent budget authority in the Federal Special Revenue Fund in fiscal year 2005-06 is due to appropriations for grants set up in 2005-06 continuing into 2006-07.

MONTANA STATE
LIBRARY COMMISSION

LIBRARY RESPONSE

MONTANA State Library

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Mr. Scott Seacat, Legislative Auditor
Legislative Audit Division
Room 135, State Capital
Helena, MT 59620

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Dear Mr. Seacat:

Thank you for the opportunity to respond to the financial compliance audit report on the Montana State Library for the two fiscal years ending June 30, 2007.

The financial compliance audit includes one recommendation. Our response to the recommendation is provided below:

Recommendation #1: We recommend the Library record grant and multiyear revenue in accordance with state policy.

Concur.

We will make every effort to insure that proper accounting procedures will be used to account for revenue in accordance with state policy.

The department has implemented better communication efforts between the central services office and the grants coordinator so that all parties involved fully understand the requirements of the grant.

The Library no longer collects the user fees from the Libraries to participate in the on-line periodical database. The 2007 Legislative session fully funded the periodical database for all libraries.

I would like to personally thank your staff who conducted this audit in a very cooperative, professional manner. Their finding and recommendation have given us valuable insight as we continue to provide services in a fiscally appropriate and prudent manner.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require. I assure you that we will continue to do our very best to maintain proper fiscal accountability.

Sincerely,

Darlene Staffeldt

Darlene Staffeldt
State Librarian